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C O N F I D E N T I A L SECTION 01 OF 02 ACCRA 002205

SIPDIS

DEPT PASS COMMERCE FOR RASHIDA PETERSEN
TREASURY FOR ALEX SEVERENS
OPIC FOR CONAL DUFFY

E.O. 12958: DECL: 11/07/2009

TAGS: [ECON](#) [EINV](#) [EMIN](#) [ENRG](#) [GH](#) [EXIM](#) [OPIC](#)

SUBJECT: KAISER COMPLETES SALE OF VALCO TO THE GOVERNMENT
OF GHANA

REF: A. A. ACCRA 00651

[1](#)B. B. ACCRA 02044

Classified By: EconChief Chris Landberg for reasons 1.5 B and D

Summary

[1](#)1. (U) Kaiser Aluminum has sold its 90-percent stake in the Volta River Aluminum Company (Valco) to the Government of Ghana (GoG) for USD 18.5 million. After Parliament ratified the sale agreement on October 28 (septel), GoG and Kaiser officials met in London on October 29 to complete the official close of the sale. Both sides also agreed to terminate the arbitration case (ref A), which had been suspended since the May 2004 signing of the agreement. Despite opposition party leaders' earlier threats to debate the legality of the sale (ref B), the agreement passed with little debate or difficulty. The GoG is already negotiating a deal with several aluminum companies (including ALCOA) to take over VALCO and mine Ghana's bauxite. End Summary.

Parliament Passes VALCO Purchase Deal

[1](#)2. (C) Ministry of Finance contacts told Econoffs that Parliament's Finance and Energy Committees held two closed, day-long joint sessions with the Attorney General to get the agreement to the floor in time for a vote. There was little of the promised debate from the opposition (ref C), and the agreement passed with a vote of 120 to 1 on Thursday, October [1](#)28. Kaiser officials raced to close the deal before the end of the week, insisting on a meeting in London on Friday. By November 2, the entire USD 13.5 million held in escrow had been disbursed. Just over half the money (USD 9.9 million) paid severance packages for VALCO's 287 workers.

[1](#)3. (SBU) There are, however, a few outstanding issues. The Ghanaian Internal Revenue Service claims Kaiser owes back taxes on dividend remittances. According to Kaiser, the sale agreement contains a tax indemnity clause, which would require the GoG to add the cost of any tax to the purchase price. Kaiser feels this lays the issue to rest and sent a letter to the GoG declaring the sale to be complete, notwithstanding this last issue.

GoG Negotiations with International Aluminum Companies

[1](#)4. (C) The GoG is anxious to attract an investor to mine and process Ghana's bauxite reserves, using their stake in Valco as equity in a partnership (ref C). According to Valco's Resident Director, Dr. Charles Mensa, Rusal Aluminum, BHP Billiton, and Alcoa have all submitted bids for projects that would include bauxite mining, and an alumina refinery, in addition to operating Valco. Alcoa representatives have described their involvement to Econoffs as "very active," adding that the total investment could exceed USD 1 billion.

[1](#)5. (C) Mensa told Econoff that he and a "team of experts" were currently evaluating the bids for the GoG. He considers Alcoa's and Billington's to be the strongest. Mensa hopes to get a small portion of Valco up and running by the end of the year and to have a deal in place with either Alcoa or Billington by the end of January. Econoff's contact at Alcoa says Mensa's timeline is unrealistic. Alcoa submitted a draft MOU in August, outlining its proposals for VALCO and bauxite mining and refining, but has yet to receive any comments from Mensa and his team other than that the MOU was "too specific" about power rates.

Note: Libya's Interest in Valco

[1](#)6. (C) Media reports confirm that the GoG signed a Protocol on Agricultural Trade with the Government of Libya last week. A statement issued by the MFA in Ghana says the countries also agreed to share information on the aluminum industry "to study possible cooperation". Mensa was familiar with the agreement and claimed the Libyans wanted Valco to become the cornerstone of an "African Aluminum Industry". He says President Kufuor does not consider Libyan overtures to be realistic, adding that Libya has offered no money and even

less in the way of vialbe plans for Valco's future. End
Note.

Comment- Power is Key

17. (C) Power is the heart of any discussion of Valco. Aluminum cannot be smelted profitably without heavy power subsidies. Valco draws one-third of the total power Ghana is capable of producing, and the addition of a mine and refinery could triple the need. Currently, Ghana's thermal powerplant in Takoradi is only run at 25 percent capacity for 6 hours per day because the cost of crude oil makes operations prohibitive. To compensate, the GoG imports power from Cote d'Ivoire. Water levels in Lake Volta are high enough to ensure that hydropower can be supplied for the next year, but it is the only economic source for Valco. If the lake's level falls and the supply from Cote d' Ivoire is interrupted before the West Africa Gas Pipeline is completed the GoG could be forced to keep Valco closed for some time. End
Comment.
YATES